

[REDACTED]
[REDACTED]
[REDACTED]
JUN 9 1989

CERTIFIED MAIL

Dear Applicant

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1986.

The information submitted indicated that you were incorporated on [REDACTED] under the laws of the State of [REDACTED].

Your stated purposes are the preservation and restoration of antique vehicles.

The activities of your organization include car shows at malls, fairs and parades for a donation from local businesses, auctions and various social affairs. You stated that the general public is not charged an admission fee for the club activities or shows. Members meet at least one time monthly. The meetings are held at member's homes, local restaurant and the various locations where outings are held.

Your income is from car shows, auctions, concessions, advertisements, and a number of social affairs. Your expenses are for car shows, auctions, various social events, contributions and operating costs.

Section 501(c)(7) of the Internal Revenue Code exempts from Federal income tax clubs organized for pleasure, recreation and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname		[REDACTED]					
Date		6/6/89					

Section 1.501(c)(7)-1(a) of the Income Tax Regulations states that the exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation and other non-profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments.

Public Law 94-568, as explained in Senate Report No. 94-1318, published in Cumulative Bulletin 1976-2, page 597, provides that a club exempt from taxation and described in section 501(c)(7) is to be permitted to receive up to 35 percent of its gross receipts from a combination of investments income and receipts from nonmembers (from the use of its facilities or services), so long as the latter do not represent more than 15 percent of the receipts. It is further stated that if any organization exceeds these limits, all of the facts and circumstances must be considered in determining whether the organization qualifies for exempt status.

However the Senate Report specifically states that the amendment was not intended to permit social clubs to receive, even within the allowable guidelines, income from the active conduct of businesses not traditionally carried on by social clubs.

Revenue Ruling 68-119, published in Cumulative Bulletin 1968-1, page 268 holds that a club will not necessarily lose its exempt status if it derives income from other than bona fide members and their guests, or if the general public on occasion is permitted to participate in its affairs provided such participation is incidental to and in furtherance of its general club purposes and the income therefrom does not inure to members. The equestrian club considered in this ruling held an annual steeple chase which was open to the general public. Prize money was paid from entry fees paid by participants and general expenses of the meet were paid from admissions and sale of programs and refreshments. The club distributed any net proceeds from the meet to charity. Therefore it was held that the meet was not operated to make a profit, and the income from nonmembers did not inure to the benefit of members. The club's exemption was not jeopardized by nonmember participation in its annual meet.

Revenue Ruling 65-63, published in Cumulative Bulletin 1965-1, page 240, holds that a non-profit organization which, in conducting sports car events for the pleasure and recreation of its members, permits the general public to attend such events for a fee on a recurring basis and solicits patronage by advertising does not qualify for exemption as a club organized and operated exclusively for pleasure, recreation and exclusively for pleasure, recreation and other non-profitable purposes under section 501(c)(7) of the Internal Revenue Code of 1954.

[REDACTED]

You expect to regularly carry on activities with the general public for which you solicit public patronage in the form of donations from businesses at the various car shows. The car shows are one of the primary activities of the club and are needed to provide funds for the activities which are of direct benefit to members. Your budgets indicate that you have received [REDACTED]% of your gross income in each of the years ending [REDACTED] from non-members.

After the expenses of the activities are paid, the financial data submitted indicates that approximately [REDACTED]% of the net receipts have been donated to an established charity. The balance, or [REDACTED]% of the net income will be used to benefit the members of the club.

The amounts of non-member income you have received exceed the permissible amounts under section 501(c)(7) of the Code. The facts and circumstances show that the net income of the club has benefitted the members.

Accordingly, you do not qualify for recognition of exemption from Federal income tax under section 501(c)(7) of the Code.

Until you have established an exempt status, you are not relieved of the requirements for filing Federal income tax returns.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office of Appeals. Your request for a conference should include a written appeal giving the facts, law and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional Office or, if you request, at any mutually convenient District office. If we do not hear from you within 30 days of the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]
District Director

Enclosed: Publication 892